

General instructions

Purpose of form

To qualify as an active farmer for purposes of the farm residence property tax exemption under N.D.C.C. § 57-02-08(15)(b), the individual occupying the residence must satisfy certain requirements. One of the requirements is that 66% of more of the occupant's total annual gross income must be from farming activities in one of the two calendar years preceding the year for which the exemption is claimed. The statute requires the occupant to complete and provide to the county a *Statement of Farm Gross Income* for one of the two preceding years to state and demonstrate compliance with the farm gross income requirement.

Note: *The farm residence exemption must be renewed each year to continue the exemption, which requires the submission of a new application each year. A Statement of Farm Gross Income must be submitted with each year's application form.*

Spouse's income. If the occupant is married, the spouse's gross income must be included for purposes of the farm gross income requirement. This applies whether they file joint or separate federal income tax returns.

Occupant other than property owner. If the occupant is someone other than the property owner, the property owner will complete and submit the application for the exemption, but the occupant must complete and submit the *Statement of Farm Gross Income*.

Example 1: *If claiming the farm residence exemption for the 2020 property tax year, the occupant must complete and provide a Statement of Farm Gross Income for either the 2018 or 2019 calendar year. If the farm gross income requirement is satisfied in the 2019 calendar year, a Statement of Farm Gross Income needs to be filed for only the 2019 calendar year; a statement does not have to be filed for the 2018 calendar year.*

Example 2: *Same as Example 1, except that the occupant is unable to satisfy the*

farm gross income requirement based on the 2019 calendar year income information. In this case, eligibility for the exemption will depend on whether the occupant is able to satisfy the requirement using the income information for the 2018 calendar year.

Use the proper year's form

The source of information used to complete the *Statement of Farm Gross Income* is derived from the occupant's Form 1040, U.S. Individual Income Tax Return, filed for the same year. Because the federal income tax return can change from year to year, it's important to use the correct year's *Statement of Farm Gross Income*. **If possible, use the MORE RECENT of the two calendar years preceding the year for which the exemption is being claimed to show compliance.**

Example 3: *If applying for the farm residence exemption for the 2020 property tax year, and if the income information for the 2019 calendar year supports compliance with the farm gross income requirement, complete and file the 2019 Statement of Farm Gross Income.*

Example 4: *Same as Example 3, except that the income information for the 2019 calendar year does not support compliance with the farm gross income requirement. In this case, eligibility for the exemption will depend on whether the occupant is able to satisfy the requirement using the income information for the 2018 calendar year. If it does, complete and file the 2018 Statement of Farm Gross Income.*

Farm gross income requirement

To meet the farm gross income requirement, 66% or more of the occupant's annual gross income must be from farming activities in either of the two calendar years preceding the year for which the exemption is being applied for. If the occupant is married, the spouse's farm gross income must be included in the calculation whether they file joint or separate federal income tax returns.

Definitions

For purposes of the farm gross income requirement, the following definitions apply:

- "Gross income" means gross income as defined under the federal Internal Revenue Code.
- "Gross income from farming activities" means gross income from farming as defined for purposes of determining if an individual is a farmer eligible to use the special estimated income tax payment rules for farmers under Internal Revenue Code § 6654.

Federal definitions. For details on what is included in farm and nonfarm gross income for federal income tax purposes, see "Special Estimated Tax Rules For Farmers" in IRS Publication 225, *Farmer's Tax Guide*. In the publication, the statement that farm income does not include income from "...contract grain harvesting and hauling with workers and machines..." furnished by the taxpayer is intended for taxpayers who are primarily engaged in that type of activity, which is not qualifying farm activity. If a taxpayer is primarily engaged in qualifying farm activity and engages in some custom hire or machine work on the side, the income from the custom hire or machine work is included in farm income.

When and where to file

Submit the completed *Statement of Farm Gross Income* with the *Application For Property Tax Exemption of a Farm Residence*, which is due on or before February 1 of the year for which the exemption is claimed. If for some reason the statement cannot be filed with the application form by February 1, it must be submitted no later than March 31 of the year for which the exemption is claimed.

Example 5: *If applying for the farm residence exemption for the 2020 property tax year, the Statement of Farm Gross Income may be filed along with the Application For Property Tax Exemption of a Farm Residence on or before February 1, 2020. Or, the Statement of Farm Gross Income may be submitted*

separately from the application on or before March 31, 2020.

Submit the completed *Statement of Gross Income* with the assessor's office where the application for the farm residence property tax exemption is filed.

Specific instructions

IMPORTANT—These specific instructions apply only for the 2018 calendar year. The amounts on these lines must match the amounts used to determine if an individual is a farmer for purposes of the special estimated tax rules for farmers under Internal Revenue Code § 6654.

Occupant's total gross income from all sources (farm and nonfarm)

Lines 6 through 24

Except for line 21 (see separate instructions for this line below), enter the gross income (farm and nonfarm) from the occupant's 2018 Form 1040, U.S. Individual Income Tax Return, as reported on the applicable federal form and line identified on each line. If the occupant is married, the spouse's gross income (farm and nonfarm) must be included whether they file joint or separate federal income tax returns.

Line 21—Partnerships and S corporations. Enter on this line gross income from partnerships and S corporations that would be *included* in the amount entered on Schedule E, Part II, line 32. The amount on Schedule E, Part II, line 32 is *not* a gross income amount, but will be a net income (or loss) amount, which is the gross income minus business deductions.

Items of gross income from a partnership or S corporation generally can be identified from the Schedule K-1 received from the entity. It may be necessary to obtain the gross income information from the partnership or S corporation if it cannot be determined from reviewing the Schedule K-1.

Important: Do not include on this line items of gross income from a partnership or S corporation that are reportable on federal forms other than Schedule E. Non-Schedule E items of gross income from a partnership or S corporation will already be included in the amounts entered on the Statement of Farm Gross Income, lines 6 through 20 and 22 through 24.

Gross income from farming activities

Lines 27 through 29

Except for line 29 (see separate instructions for this line below), enter the gross income from farming activities from the occupant's 2018 Form 1040, U.S. Individual Income Tax Return, as reported on the applicable federal form and line identified on each line. If the occupant is married, the spouse's gross income from farming activities must be included whether they file joint or separate federal income tax returns.

Line 29—Form 4797. Enter on this line gains from the sale of livestock used for draft, breeding, sport, or dairy purposes. Do not include any loss. There is no specific line on Form 4797 on which the net amount of gains from the sale of qualifying livestock is reported. These gains may be reported in Part I, line 2, or Part II, line 10, or Part III, line 19. If a gain reported in any of the three sections of the Form 4797 is from a partnership, S corporation, estate, or trust, and the type of property sold is not separately identified on the Schedule K-1 received from the entity, it may be necessary to contact the entity to obtain this information.